

REPORT ON EXAMINATION
OF THE
PERICO LIFE INSURANCE COMPANY
AS OF
DECEMBER 31, 2006

I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of DECEMBER 31, 2006 of the

PERICO LIFE INSURANCE COMPANY

is a true and correct copy of the document filed with this Department.

ATTEST BY: Antoinette Handy

DATE: 18 JUNE 2008



In Witness Whereof, I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THIS DEPARTMENT AT THE CITY OF DOVER, THIS 18TH DAY OF JUNE 2008.

Matthew Denn
Insurance Commissioner

REPORT ON EXAMINATION
OF THE
PERICO LIFE INSURANCE COMPANY
AS OF
December 31, 2006

The above captioned Report was completed by examiners of the Delaware Insurance Department.

Consideration has duly been given to the comments, conclusions, and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted, and filed as an official record of this Department.

A handwritten signature in black ink, appearing to read "Matt Denn", with a stylized flourish at the end.

MATTHEW DENN
INSURANCE COMMISSIONER

DATED this 18TH Day of JUNE 2008.

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Perico Life Insurance Company

March 15, 2008

Honorable Matthew Denn
Insurance Commissioner
State of Delaware
841 Silver Lake Boulevard
Dover, Delaware 19904

Dear Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 08-007, dated December 14, 2007, an Association examination has been made of the affairs, financial condition and management of the

PERICO LIFE INSURANCE COMPANY

hereinafter referred to as "Company", incorporated under the laws of the State of Delaware as a stock company with its statutory home office located at 160 Greentree Drive, Dover, Delaware 19904. The examination was conducted at the primary location of books and records office of the Company, located at 225 Town Park Drive, NW Suite 145, Kennesaw, Georgia 30144. The report of such examination is submitted herewith.

SCOPE OF EXAMINATION

This is the first examination of the Company; the previous examination was conducted of the Company when it was previously MIC Life Insurance Corporation as of December 31, 2003.

The Company was purchased from Motors Insurance Corporation in December, 2005. This examination covered the period from January 1, 2004, through December 31, 2006, and consisted of a general survey of the Company's business policies and practices, management, any corporate matters incident thereto, a verification and evaluation of assets and a determination of liabilities. Transactions subsequent to the latter date were reviewed where deemed necessary.

This report is presented on the exception basis. It is designed to set forth the facts with regard to any material adverse findings disclosed during the examination. The text will explain changes wherever made. If necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such cases, these matters were thoroughly discussed with responsible Company Officials during the course of the examination.

The general procedures of the examination followed the rules established by the National Association of Insurance Commissioners' (NAIC) Committee on Financial Condition Examiners Handbook, and generally accepted statutory insurance examination standards.

In addition to items hereinafter incorporated as a part of the written report, the following were checked and made part of the workpapers of this examination:

- Corporate Records
- Fidelity Bonds and Other Insurance
- Regulatory Agency Correspondence
- NAIC Financial Ratios
- Legal Actions
- All Assets and Liabilities Items Not Mentioned in this Report
- Subsequent Events

HISTORY

The Company was incorporated, under the laws of the State of Delaware, on June 24, 1975, and commenced business on October 9, 1975. The primary business of the Company was credit life and credit accident and health coverages produced through automobile dealerships when it was formerly known as MIC Life Corporation (MIC). MIC made a decision to exit this business effective November 1, 1995, and allow the inforce business to run-off, this business is still in run-off on the Company's books as of December 31, 2006. MIC was sold to HCC Insurance Holdings, Inc. in December 2005 and MIC's name was changed to Perico Life Insurance Company. In March 2006, HCC Insurance Holdings, Inc., contributed all the shares of the Company to HCC Life Insurance Company, a subsidiary. Effective in January 2006, the Company primarily underwrites medical stop loss and group term life insurance. The Company markets its insurance products through independent third party administrators, independent or affiliated agents, and unaffiliated carriers.

Capitalization

The Company's \$2,500,000 capitalization is comprised of common capital stock with a par value of \$166.6667 per share.

In 2006, an additional surplus contribution of \$9 million was received, which raised gross paid in and contributed surplus to \$25,044,117.

MANAGEMENT AND CONTROL

The Company's bylaws state that the business and affairs shall be managed by a Board of Directors consisting of not less than four members and not more than ten members. The Directors shall be elected at the annual meeting of the stockholders and shall hold office until a successor is elected and qualified.

The following Directors were elected by unanimous vote of the Stockholder at meetings held during 2006:

Directors

Edward Hardin Ellis, Jr.
Craig John Kelbel
John Niels Molbeck, Jr.
Hamendra Prabhulal Ojha
Pamela Jordan Penny
Carl Clifford Petty, Jr. – Chairman of the Board
Mark Roberts Sanderford

The bylaws state that the Officers of the Company shall include a Chief Executive Officer, President, any number of Vice Presidents, a Secretary and a Treasurer. The Board of Directors may also appoint a Chairman, one or more Vice Presidents, and such other officers as are from time to time desired. The following Officers were elected by the Board of Directors at meetings held during 2006:

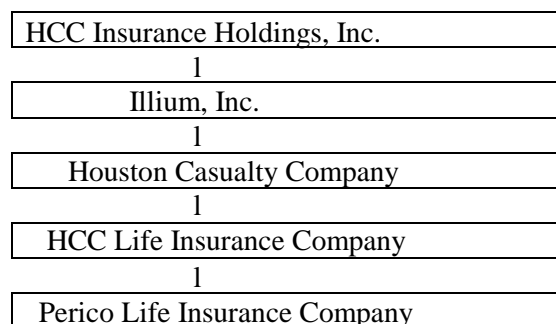
Officers

Position

Carl Clifford Petty, Jr.	Chairman of the Board and President
Edward H. Ellis, Jr.	Executive Vice President
John N. Molbeck, Jr.	Executive Vice President
Hamendra P. Ojha	Executive Vice President and Treasurer
Mark Roberts Sanderford	Executive Vice President and Chief Financial Officer
Annette J. Goodreau.	Senior Vice President and Actuary
Sharon Brock	Vice President
Larry Cook	Vice President, Finance and Assistant Secretary
Jeffrey Petty	Vice President, Sales and Marketing
Joycelyn Ray	Vice President and Assistant Secretary
Deborah Riffe	Vice President
Andrew Ritchie	Vice President and Assistant Secretary
Erwin Rittinger	Vice President, Claims and Underwriting
James Simmons	Secretary

HOLDING COMPANY SYSTEM

The Company is a member of an Insurance Holding Company System and is a wholly owned subsidiary of HCC Life Insurance Company, which is ultimately owned by HCC Insurance Holdings, Inc. (HCC). The following is an organizational chart between the Company, its immediate Parent and its ultimate Parent as of December 31, 2006:



Copies of the “Form B Holding Company Registration Statements” filed with the Delaware Insurance Department, during the period under examination, were reviewed without exception.

MANAGEMENT AND SERVICE AGREEMENTS

1. Intercompany Service and Cost Allocation Agreement:

Under this agreement, HCC Service Company, Limited agrees to provide the Company with all services and facilities required to conduct its insurance operations. Costs incurred are based on actual cost to HCC Service Company, Limited, and are settled in conformity with customary accounting principles and practices. The Company was added to the agreement through an amendment that was effective as of November 30, 2005.

2. Investment Management Agreement:

Effective December 31, 2005, the Company was added to the Investment Management Agreement which its parent, HCC Insurance Holdings, Inc. has had in effect with General Re New England Asset Management, Inc. since February 1, 2000. The Company's custodial account is subject to written investment guidelines. An administrative fee of .10% of 1% of the market value of the assets under management is payable quarterly.

3. Financial and Statutory Accounting Tax Allocation Agreement:

This agreement, dated November 30, 2005, with HCC Insurance Holdings, Inc., the Company's ultimate parent, provides for the allocation of federal income tax liability and tax credits between parties in accordance with their respective contributions to the tax liability for each taxable year.

TERRITORY AND PLAN OF OPERATION

Territory:

As of December 31, 2006, the Company was licensed in the District of Columbia, and all states in the United States, except New York. The Company's affiliate, Avemco Insurance Company, writes medical stop loss business in New York and cedes the business 100% to the Company.

Plan of Operation:

The Company provides medical stop loss and group term life for companies, associations and public entities that elect to self-insure their employees' medical coverage for losses within specified levels, allowing them to manage the risk of excessive health insurance exposure by

limiting aggregate and specific losses to a predetermined amount. During 2006, the Company wrote \$31.7 million of premium of which \$0.7 million was assumed from an affiliated carrier and \$5.3 million from two non-affiliated carriers.

In 2006, the Company also wrote \$0.2 million of group term life insurance offered to medical stop-loss customers as a complementary insurance product.

GROWTH OF COMPANY

The following information was obtained from the Company's filed Annual Statement and covers the period from when it was purchased to this examination, ending December 31, 2006.

<u>Year</u>	<u>Admitted Assets</u>	<u>Capital and Surplus</u>	<u>Gross Premiums Written</u>	<u>Net Income</u>
2006	\$45,424,885	\$25,044,117	\$31,943,811	\$2,950,290
2005	17,302,075	13,020,420	0	280,814

The Company was purchased in 2005 and began writing business in 2006.

REINSURANCE

Assumed

The Company has three assumed treaties in effect as of December 31, 2006. The Company did not have approved stop loss forms in place at the beginning of 2006 so two of the treaties were used with Gerber Life Insurance Company (Gerber) and Companion Life Insurance Company (Companion) to front for the Company until the forms were approved. Companion ceded 85% of their risk back to the Company and Gerber ceded 75% of their risk. These treaties are in run-off since the Company has since obtained the forms in all the states that they write business. The third treaty is with Avemco Insurance Company, an affiliate, which cedes 100%

of the medical stop loss business written in New York since the Company is not licensed in New York.

Ceded

The Company cedes 100% of the remaining ordinary life and A&H business, which was still on the records when the Company was purchased from MIC to Union Fidelity Life Insurance Company. Ceded reserves for the remaining life and A&H ordinary business totaled \$21,730 and \$98,498, respectively, as of December 31, 2006.

The group life business is ceded to ReliaStar Life Insurance Company (ReliaStar) by an excess of loss treaty with the Company having the liability for the first \$50,000 of incurred losses and ReliaStar covering the excess of \$50,000 up to \$500,000 on any one covered person.

ACCOUNTS AND RECORDS

In accordance with the Intercompany Cost and Allocation Agreement discussed under the section "Management and Services Agreements", HCC Service Company, Limited, provides all services necessary for the Company to conduct its operations. The Company utilizes the IT systems of its service providers for processing, updating and storing of its primary books and records. Personal computers and file servers support financial reporting and analysis. Due to the size of the Company and since the Company was newly purchased; no control assessment of these systems was made. The conduct of this examination consisted of those substantive and analytical procedures considered necessary to opine on both Company operations and results of operations. Based on the conclusions made from these procedures, no material exceptions were noted with management's maintenance of either accounts or records. A trial balance was taken of the general ledger account balances and were traced to and found to be in agreement with the amounts reported in the Annual Statement for the year 2006.

It was noted during the examination that the Company has pledged the stock of the Company as collateral for a \$200 million revolving credit facility for HCC, the Company's ultimate parent. This disclosure was not disclosed in the 2006 Annual Statement; however, the Company stated that in 2007 the stock was no longer pledged as collateral.

FINANCIAL STATEMENTS

The following statements show the assets, liabilities, surplus and other funds of the Company, as determined by this examination, as of December 31, 2006.

Analysis of Assets
Liabilities, Surplus and Other Funds
Summary of Operations
Capital and Surplus Account

It should be noted that the various schedules and exhibits may not add to the totals shown due to rounding. With the exception of the Aggregate Reserve on Life Policies and Contracts account, write-ups on the individual accounts in the Notes to the Financial Statements section of this report are presented on the "exception basis". Only comments relative to adverse findings, material financial changes, or other significant regulatory concerns are noted.

Analysis of Assets
December 31, 2006

	Ledger <u>Assets</u>	Non-Ledger <u>Assets</u>	Assets Not <u>Admitted</u>	Net Admitted <u>Assets</u>	<u>Note</u>
Bonds	\$25,320,942	\$	\$	\$25,320,942	
Cash and short term investments	15,341,567			15,341,567	
Investment income due and accrued	343,103			343,103	
Uncollected Premiums	3,949,592			3,949,592	
Amounts receivable under reinsurance contracts	1,138			1,138	
Net deferred tax asset	125,014		18,413	106,601	
Guaranty Funds receivable	145,972		55,304	90,668	
Receivable from parent, subsidiaries and affiliates	271,274			271,274	
Aggregate write-ins for other than invested assets	<u>16,062</u>	<u> </u>	<u>16,062</u>	<u>-0-</u>	
Total Assets	<u>\$45,514,664</u>	<u>\$0</u>	<u>\$89,779</u>	<u>\$45,424,885</u>	

Liabilities, Surplus and Other Funds
December 31, 2006

		<u>Note</u>
Aggregate reserve for life policies and contracts	\$18,211	1
Policy and contract claims: Life	91,757	
Policy and contract claims: Accident and health	14,954,829	2
Interest maintenance reserve	1,531,874	
Commissions to agents due or accrued	1,083	
Commissions and expense allowances payable on reinsurance assumed	16,089	
General expenses due or accrued	95,479	
Taxes, licenses and fees due or accrued	576,886	
Current federal income taxes	424,474	
Remittances and items not allocated	90,847	
Asset valuation reserve	30,823	
Payable to parent, subsidiaries and affiliates	<u>48,416</u>	
Total Liabilities	<u>17,880,768</u>	
Common capital stock	2,500,000	
Gross paid in and contributed surplus	9,000,000	
Unassigned funds (surplus)	<u>16,044,117</u>	
Total Capital and Surplus	<u>\$27,544,117</u>	
Total Liabilities, Surplus and Other Funds	<u>\$45,424,885</u>	

Summary of Operations
December 31, 2006

Income:		<u>Note</u>
Premiums and annuity considerations	\$31,943,811	
Net investment income	1,351,896	
Amortization of interest maintenance reserve	149,071	
Aggregate write-ins for miscellaneous income	<u>4,514</u>	
Total Income		\$33,449,292
Expenses:		
Death benefits	91,757	
Disability benefits	21,878,977	
Increase in aggregate reserves for life and accident and health policies and contracts	18,211	
Commissions on premiums	972,607	
Commissions on reinsurance assumed	1,273,328	
General insurance expenses	3,968,638	
Insurance taxes, licenses and fees excl. fed. inc tax	<u>834,485</u>	
Total Expenses		\$29,038,003
Net gain from operations before dividends to policyholders and Federal income taxes		\$4,411,289
Dividends to policyholders		0
Net gain from operations after dividends to policyholders and before Federal income taxes		\$4,411,289
Federal income taxes incurred		<u>(1,460,999)</u>
Net loss from operations after dividends to policyholders and federal income taxes and before realized capital gains		\$2,950,290
Net realized capital gains less capital gains tax		<u>-0-</u>
Net Income		<u>\$2,950,290</u>

Capital and Surplus Account
December 31, 2005 to December 31, 2006

Capital and Surplus, December 31, 2005		\$15,520,420
Net Income		2,950,290
<u>Additions:</u>		
Change in net deferred income taxes	\$ 65,324	
Aggregate write-ins for gains in surplus	<u>62,292</u>	
Total Additions		127,616
<u>Deductions:</u>		
Change in net unrealized capital losses	\$ 3	
Change in non-admitted assets	30,089	
Change in asset valuation reserve	<u>24,117</u>	
Total Deductions		<u>(54,209)</u>
Paid-in surplus		<u>9,000,000</u>
Net change in capital and surplus for the year		<u>\$12,023,697</u>
Capital and Surplus, December 31, 2006		<u>\$27,544,117</u>

SCHEDULE OF EXAMINATION ADJUSTMENTS

There were no financial adjustments to the Company's balance sheet as a result of this examination.

NOTES TO THE FINANCIAL STATEMENTS

Note 1:

Aggregate Reserve for Life Contracts

\$ 18,211

This liability is the reserve for a closed block of credit life insurance and the reserve retained by the Company represents group unearned premium from their new business. The gross reserve is \$39,892 and reinsurance ceded is \$21,681.

Note 2:

Contract Claims – Accident and Health

\$14,954,829

The above captioned amount was determined to be deficient after reviewing the Company's Schedule H Part 3 of the 2007 Annual Statement by approximately \$1 million, however, the amount was below materiality and no financial change was made.

It is recommended that the Company continue to monitor the adequacy of their case reserves and incurred but not reported reserves.

SUMMARY OF RECOMMENDATIONS

It is recommended that the Company continue to monitor the adequacy of their case reserves and incurred but not reported reserves. (See Note 2, page 15)

CONCLUSION

The following schedule shows the results of this examination and the beginning of the prior year when the Company was purchased. There were no financial changes between the periods.

<u>Description</u>	<u>December 31, 2006</u>	<u>December 31, 2005</u>	<u>Increase</u>
Assets	\$45,424,885	\$17,302,075	\$28,122,810
Liabilities	17,880,768	1,781,655	16,099,113
Capital and Surplus	27,544,117	15,520,420	12,023,697

Respectfully submitted,



Legh S. Cathey, CFE
Examiner In-Charge
State of Delaware
Department of Insurance